

STATEMENT BY CONGRESSMAN HENRY A. WAXMAN
BEFORE THE MEETING ON
"THE MEDICAID REVOLUTION"
April 26, 1995

It is a pleasure to be here with you today.

But as you might guess, it is not a pleasure to bring to you the message I have to bring about the climate in Washington for our health care programs, most specifically and most importantly, the Medicaid program.

There is a great irony that only one year ago, we were debating in Washington the best way to bring universal health care coverage to all Americans. Now we are discussing how to block grant Medicaid and undo the only health care safety net we have in this country.

Only a year ago, we were discussing requirements to assure that employed people would get the health care coverage they needed, with financial contributions from their employers. Now we find ourselves once again looking at studies, like the recent one in California, that show a continuing decline in the number of workers receiving coverage from their employer.

Only a year ago, we were discussing the best way to assure a financial safety net for our front line health care institutions, whether teaching or children's hospitals, public hospitals, or community health centers. Now we discuss policies which will severely imperil that health care safety net.

GENERAL OVERVIEW

I cannot overemphasize to you the change in the climate in Washington or the dangers I see for our health care financing programs.

Both Medicare and Medicaid are at risk. Both will be substantially affected. But difficult as the fight to protect Medicare will be, in many ways the Medicaid program is even more endangered.

Let me review for you the general picture facing us.

First, we see in Washington a very strong movement to balance the budget. I'm sure a lot of you in this room think that is a good idea and should be a high priority. I agree with that.

But the question we have to ask is: how fast should we do it, and how concerned should we be about the consequences.

The situation we are facing is this. We've established an artificial deadline for balancing the budget--2002. We've decided that we are not going to raise revenues, in fact we're going to cut taxes. We've taken Social Security off the table. And we're not going to cut defense--in fact the mood is to increase it.

Add that all up and we're led to one inescapable conclusion--our health care financing programs are going to bear the brunt of the reductions in Federal spending. And those reductions are going to be massive.

When we talk about budget targets now, we speak in the hundreds of billions of dollars of savings--reductions in spending which would have been incomprehensible only a few years ago.

It is now common wisdom that the budget resolution will call for reductions in Medicare and Medicaid spending of somewhere around \$400 billion over the next seven years. Because of the relative size of the programs, people assume that means about \$250 billion in Medicare and around \$150 billion from Medicaid.

The relative political strength of those programs might tip the number slightly more toward Medicaid reductions with slightly less from Medicare. But under almost any scenario, both programs are in for savage cuts.

You might hear some smaller numbers mentioned in the press, but don't take undue comfort. The five year budget number--and five years is typically how we do our budget resolutions--is more like a \$250 billion total for the two programs. But that doesn't mean the target for savings is any less--it's just that the additional savings to add up to the \$400 billion figure comes in years six and seven.

Think of it--we are working on plans to take some \$400 billion of public dollars out of the health care system over the next seven years.

Then combine the effects of that with the continued move to managed care and negotiated rates in the private sector. Add in for good measure the continued growth in the numbers of people who are uninsured altogether.

The result for the health care system and health care providers is truly frightening.

WHAT THIS MEANS FOR MEDICAID

If this kind of budget target is adopted--and the current indications are that it will be--under any scenario, drastic changes will have to be made in the Medicaid program.

None of the choices we will face will be easy ones. But I fear the political forces that are in the ascendancy in Washington and in the States will result in choosing what I think is the very worst way to reform Medicaid: turning it into a no-strings attached block grant.

We have what I see as an unholy alliance operating to dismantle the Medicaid program.

On the one hand, we've got people who want massive budget cuts in the program at all costs. It is necessary to help them meet their goal of a balanced budget in seven years, and it fits with a philosophical orientation to reduce the responsibilities of the Federal government.

On the other hand, we've got the Governors, who have long seen Medicaid as a thorn in their side. They've come to believe their own rhetoric that somehow the problem of soaring Medicaid budgets is the Federal requirements that are part of the program.

So their primary goal is to get rid of the Federal requirements, and to do it they will go along with large reductions in Federal support.

What do they want? For one, they don't want any person to be entitled to services under the program. They want to dispense the money as they see fit--including on purposes other than health care.

For another, they don't want any requirements, particularly ones that can be enforced in the courts, relating to the rates they have to pay providers. A State is a big purchaser, and the States are willing to use their market leverage to make providers agree to some very inadequate rates, if they want to get paid for services to poor people at all.

I don't think I have to elaborate much on how that works for all of you here in California. Suffice it to say, it's going to get a lot worse.

The States also want all the restrictions taken off which limit their ability to put Medicaid recipients into managed care. I understand that trend, but I think it's got some particular problems of its own that I'll come back to in a minute.

And finally, States don't want to be told they must cover under Medicaid all children below poverty. And they don't want to be required to pay the Medicare premium for low-income elderly.

(Surprisingly enough, and contrary to popular perception, those are the only groups whose coverage is required by the Federal law right now. States must cover people to whom they choose to give cash assistance, but they control the income level for eligibility for these groups.)

If all this leeway is granted to the States, no recipient and no provider is going to know who is entitled to have payment made for their medical services. No provider will be able to establish Medicaid eligibility when someone comes to their institution for services. It will be a nightmare.

STATE VARIATION

You don't have to study the Medicaid program in any detail to know that it differs dramatically from State to State right now.

Nationally, children account for 50% of Medicaid beneficiaries and about 15% of the program's expenditures. In California, both those figures are higher.

Nationally, about 37% of all Medicaid dollars go to pay for long-term care. In California, that figure is only 17%.

Finally, nationally, about one-third of the low-income families covered in the Medicaid program are already in managed care arrangements.

IS MANAGED CARE THE ANSWER

The demographics of the program are important--not just because it is somewhat different than the general public perception, but because it helps to put in perspective exactly how difficult it will be to use managed care to bring program costs under control.

A well-run managed care program can bring savings, we all know that. But the potential for large managed care savings with a severely disabled population, or with nursing home residents, just are not there.

Discounted rates can mean savings for managed care and preferred provider arrangements. But the potential for additional large discounts in rates for a program like Medicaid which already has a history of low reimbursement rates, is at least open to question.

Even the most vigorous advocate of managed care must realize that it just won't work if the capitated rate of payment is totally inadequate.

So again, while both nationally and in California, greater use of managed care for the Medicaid population might bring some degree of savings to the Medicaid program, it behooves us to be reasonable in our expectations.

And unfortunately, both the governors and the budget cutters have not been.

To achieve the kind of savings projected for Medicaid, the growth in Federal expenditures can be no more than 5% annually, probably less.

That means by the year 2000, we'll be spending some 20% to 25% less in the program than projected under the current law. There is simply no way managed care brings that kind of reduction in spending.

CALIFORNIA PROBLEMS

These kinds of changes in Medicaid are going to be bad news for recipients and providers in all the States. They are going to be bad news for people with insurance who find out they are going to pick up the costs of lots of uninsured people in their own health insurance rates.

But there are some particular reasons I think California has to worry.

First, California is now among the lowest States in the amount it spends on its Medicaid eligibles.

Nationally, Medicaid spends about \$955 per enrolled child; in California, it is \$601.

Nationally, Medicaid spends some \$7200 on disabled Medicaid enrollees; in California, it is two-thirds of that amount. The differential is even greater with the elderly population.

What does that mean? California is starting at a significantly lower base expenditure than most other States in the country.

This State has already taken a number of actions to hold down its overall cost. What has already been done can't be done again.

When California tries to live with a capped Federal contribution growing at the rate of only 4% or 5% a year, it is going to have a lot of trouble. And trouble for the State means double trouble for the counties and for health care providers.

As if all of that isn't enough, we have some additional disturbing trends in Washington. Although the general mood is not to require the States to do anything, we still seem willing to tell them some things that they can't do.

In the welfare reform bill which passed the House last month, we refused to allow the use of any Federal money to pay for legal aliens! I didn't say illegal--I said legal. And in that bill, we already established the policy that no Medicaid funds would be available either.

We did more. We also banned the use of any Federal Medicaid dollars for services to persons who were disabled because of their addiction to alcohol or drugs. Forget the fact that those are the very people who account for a large proportion of hospital services and who need health care treatment.

Finally, a State like California with an economy susceptible to recessions, where additional people may need Medicaid help for services, is going to find that a block granted Medicaid program is not responsive to its needs.

And again, a State like California, with a business economy increasingly unlikely to pay employee health care costs, is going to find the safety net of the Medicaid program is now full of holes.

OUTLOOK

Is all this going to happen?

Regretfully, it is highly likely to occur. The coming together of the interests of the governors and the budget cutters is resulting in a juggernaut that it is hard to stop.

I would hope the President, who is clearly committed to universal health care, would stop a Medicaid change which overnight would add over 30 million people to the rolls of the uninsured. But I wouldn't count on it.

Both his sympathies as a former governor and the procedural weapons the Republican majority have, could result in less effective opposition from the White House than we might hope.

Bleak as the picture is, and hard as it will be, I urge you all to fight back.

Today, Congress is looking at mega budget numbers and almost deliberately refusing to consider the consequences of the kinds of cuts they are planning.

That is what has to change. Each health care provider, each beneficiary group, each managed care plan, should be carrying the tale of the effect of these cuts to their Representatives.

Because if we don't stop these changes now, we will be paying the consequences for many years to come.